CONFIDENTIAL

Department of State

OUTGOING TELEGRAM

butter

PAGE 01 OF 03 STATE 289280 1480

ORIGIN EB-08

INFO	OCT-00	ADS-00	AID-07	IHR-10	EUR-12	SS-15	DIC-02
	AF-10	CIAE-00	EA-10	ICA-11	DODE-00	H-01	MMO-01
	IO-15	NEA-06	NSC-05	ARA-10	NSAE-00	COME-00	L-03
	LAB-04	CTME-00	TRSE-00	INT-05	ITC-01	PA-01	CEA-01
	OMB-01	STR-11	FRB-03	SIG-03	AGR-01	SP-02	SPRS-02
	/167						

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY _____ DATE 4/4/84
XDS ☐ or XDS ☐ EXT. DATE _____
TS AUTH. _____ REASON(S) _____
ENDORSE EXISTING MARKINGS
DECLASSIFIED
RELEASE DENIED ☐
FOI or FOI EXEMPTIONS _____

DRAFTED BY EB/ORF/OFP/FPD:GNILLER:ML
APPROVED BY EB/ORF/OFP/FPD:BRIAN R. FURNESS
USDA/FAS:RSMITH
EB-EJOHNSTON (SUBS)
EUR/SOV:NBURAKOV
EA/ANZ:PLANGFORD (SUBS)
USTR:SEARLY (INFO)
EUR/RPE:EMARCH
S/S-O:RHSTERN

R 070657Z AUG 84
FM SECSTATE WASHDC
TO ALL DIPLOMATIC POSTS

C O N F I D E N T I A L STATE 289280

INFO: CONSULS AS APPROPRIATE, ALSO FOR USEC/USOECD/USTR

E.O. 12065: GDS 8/6/81 (FURNESS, BRIAN R.)
TAGS: ETRD, EAGR, NZ
SUBJECT: SALE OF U.S. BUTTER TO NEW ZEALAND

REF: STATE 207590 (NOTAL)

SUMMARY: ON AUGUST 5 THE UNITED STATES AND THE NEW ZEALAND DAIRY BOARD ANNOUNCED THAT AGREEMENT HAD BEEN REACHED TO SELL 100,000 METRIC TONS OF SURPLUS BUTTER FROM COMMODITY CREDIT CORPORATION STOCKS TO THE NEW ZEALAND DAIRY BOARD. FOLLOWING INFORMATION IS FOR POST'S USE AS APPROPRIATE IN RESPONDING TO LOCAL INQUIRIES. END SUMMARY.

1. (U) USDA MADE THE FOLLOWING PUBLIC ANNOUNCEMENT AUGUST 5:

(BEGIN TEXT) U.S. SELLS NEW ZEALAND 220 MILLION POUNDS OF SURPLUS BUTTER.
WASHINGTON, AUG. 5 -- THE UNITED STATES TODAY SOLD 220 MILLION POUNDS OF GOVERNMENT-OWNED SURPLUS BUTTER TO THE NEW ZEALAND DAIRY BOARD FOR $155 MILLION.

SECRETARY OF AGRICULTURE JOHN R. BLOCK, WHO ANNOUNCED THE SALE, SAID THE PRICE IS $1,550 PER METRIC TON, LOADED AT THE WAREHOUSE, FOR DELIVERY BETWEEN SEPTEMBER 1 AND JUNE 30, 1982.

HE SAID THE SALE WILL REDUCE BURGEONING GOVERNMENT BUTTER STOCKS, WHICH ARE OWNED BY THE COMMODITY CREDIT CORPORATION (CCC), BY HALF, AND PERMIT THE CCC TO RECOVER PART OF THE COSTS OF OPERATING THE MILK PRICE SUPPORT PROGRAM. SOME OF THE BUTTER PURCHASED UNDER THE PROGRAM HAS BEEN STORED SINCE MAY 1979.

BLOCK SAID THE CCC ACCUMULATION OF 440 MILLION POUNDS OF UNCOMMITTED BUTTER IS THREE TIMES THE ANNUAL AMOUNT REQUIRED FOR U.S. DOMESTIC DONATION PROGRAMS, AND CCC RESALE PRICE POLICY PREVENTS ITS BUTTER FROM COMPETING IN THE U.S. WHOLESALE MARKET.

HE SAID THE UNITED STATES NOW HOLDS A MAJOR PORTION OF THE WORLD'S STOCKS AND SELLING THE BUTTER TO NEW ZEALAND OFFERS THE BEST COURSE TO REDUCE CCC CARRYING AND STORAGE COSTS, WHILE PREVENTING AN INFLUX OF U.S. BUTTER FROM DISRUPTING WORLD BUTTER MARKETS OR TRADING PATTERNS.

"WE RECOGNIZE OUR INTERNATIONAL OBLIGATIONS WITH RESPECT TO ORDERLY TRADE," HE SAID. "AS A LEADING DAIRY EXPORTER, NEW ZEALAND IS IN A POSITION TO MANAGE THE MOVEMENT OF THIS BUTTER TO THE WORLD MARKETS IN A NON-DISRUPTIVE WAY."

HE SAID THE SALE WAS MADE WITH THE UNDERSTANDING THAT THE DAIRY BOARD WOULD NOT SELL U.S. BUTTER TO THE SOVIET UNION.

BLOCK SAID INCREASED MILK PRODUCTION HAS FORCED HEAVY CCC BUYING UNDER THE DAIRY PRICE SUPPORT PROGRAM THE PAST FEW YEARS. HE SAID CCC STOCKS HAVE MORE THAN DOUBLED SINCE A YEAR AGO.

THE PRESIDENT LAST SPRING SIGNED LEGISLATION ELIMINATING AN INCREASE THAT HAD BEEN SCHEDULED APRIL 1 IN DAIRY SUPPORT PRICES, AND THE ADMINISTRATION'S FARM LEGISLATION PROPOSES A LOWER SUPPORT LEVEL THAN THOSE IN THE CURRENT FARM ACT WITH THE GOAL OF BRINGING SUPPLY AND DEMAND INTO BALANCE.

OF MILK TO PRODUCERS IS SUPPORTED THROUGH PURCHASES BY CCC OF NONFAT DRY MILK, BUTTER, AND CHEESE. (END TEXT).

2. (LOU) GUIDANCE PROVIDED FOR DEPARTMENT SPOKESMAN AUGUST 6 IS AS FOLLOWS (FOR RECIPIENTS OF THE REFTEL, NOTE MODIFICATIONS TO FIRST AND FOURTH Q AND A AND THE ADDITION OF A FIFTH):

QUESTION: CAN THE NEW ZEALANDERS SELL THE BUTTER OR ITS PRODUCTS TO THE SOVIET UNION? CAN THIRD PARTIES BUY FROM NEW ZEALAND AND SELL TO THE SOVIET UNION?

ANSWER: THE NEW ZEALAND DAIRY BOARD HAS AGREED NOT TO SELL THE BUTTER TO THE SOVIET UNION. AS A RESULT OF THIS SALE THE SOVIETS MAY BE ABLE TO BUY MORE BUTTER OR BUTTER PRODUCTS FROM SOMEWHERE SINCE THERE IS MORE BUTTER ON THE WORLD MARKET. AFTER PASSING THROUGH SEVERAL HANDS OR THROUGH PROCESSING IT MAY BE POSSIBLE THAT SOME AMERICAN DAIRY PRODUCTS MAY END UP IN RUSSIAN MOUTHS, BUT THIS ARRANGEMENT SHOULD MINIMIZE THAT. WE HAVE DONE AS MUCH AS IS PRACTICAL OR FEASIBLE BY GETTING THE NEW ZEALAND DAIRY BOARD NOT TO SELL THE BUTTER TO THE SOVIET UNION.

QUESTION: DOES THE NEW ZEALAND ARRANGEMENT MEAN THAT THE STATE DEPARTMENT HAS RETREATED FROM ITS OPPOSITION TO DIRECT OR INDIRECT SALES OF U.S. BUTTER TO THE SOVIET UNION?

ANSWER: THIS ARRANGEMENT IS NOT SO AIRTIGHT AS WE WOULD HAVE WISHED IN A PERFECT WORLD. THERE IS A CERTAIN UNAVOIDABLE FUNGIBILITY IN THE SALE OF ANY COMMODITY. HOWEVER, WE HAVE REACHED A PRACTICAL ARRANGE WHICH THE NEW ZEALAND DAIRY BOARD HAS AGREED THIS BUTTER TO THE SOVIET UNION. APART FROM AID SHIPMENTS THIS IS THE FIRST EXAMPLE I KNOW OF RECENT YEARS WHERE WE HAVE INSISTED ON THAT STIPU IN THE SALE OF SURPLUS COMMODITIES.

QUESTION: DOES THIS MEAN THAT THE U.S. HAS DROPPED ITS OPPOSITION TO THE USE OF SUBSIDIES IN SALES TO THE

CONFIDENTIAL

SOVIET UNION.

ANSWER: IT DOES NOT. HOWEVER, IN DEALING WITH FUNGIBLE COMMODITIES, THE ADDITION OF SUPPLIES TO THE WORLD MARKET, WHETHER OR NOT THERE ARE SUBSIDIES INVOLVED, NECESSARILY MEANS THAT THERE IS MORE WHICH CAN BE BOUGHT BY THE SOVIET UNION OR ANY OTHER BUYER. THUS THERE ARE ALWAYS SPILL-OVER EFFECTS. OUR HOPE IS THAT WESTERN COUNTRIES WILL NOT SUBSIDIZE THEIR TRADE WITH THE SOVIET UNION. IF WE CAN ACHIEVE THAT GOAL, WE WILL HAVE ACCOMPLISHED QUITE A LOT. INDEED, UNDER THE GATT SUBSIDIES CODE WE ARE WORKING TOWARD A GENERAL DIMINUTION OF SUBSIDIES IN WORLD TRADE.

QUESTION: DOES THIS SALE REPRESENT A CHANGE IN OUR GENERAL OR TRADE RELATIONS WITH THE SOVIET UNION?

ANSWER: IT DOES NOT. WE HAD A SEVERE PROBLEM ON DISPOSAL OF SURPLUS BUTTER AND WE ARE SELLING IT TO THE NEW ZEALANDERS WITH AN UNUSUAL STIPULATION AS AN INDICATION THAT THE SALE REPRESENTS NO CHANGE IN OUR RELATIONS WITH THE USSR.

QUESTION: DOES THIS SALE REPRESENT A BACKDOWN FROM U.S. OPPOSITION TO THE SOVIET INVASION OF AFGHANSTAN?

ANSWER: THE TWO ARE NOT RELATED. WE HAVE IN NO WAY CHANGED OUR OPPOSITION TO THE SOVIET OCCUPATION OF AFGHANISTAN.

QUESTION: WHY IS THE U.S. SELLING GRAIN TO THE USSR BUT NOT BUTTER?

ANSWER: THE DIFFERENCE IS THAT GRAIN IS SOLD TO THE USSR ON A COMMERCIAL BASIS; THE BUTTER, ON THE OTHER HAND, WOULD HAVE TO BE SOLD AT A PRICE MUCH LESS THAN THE COST OF ACQUIRING THE BUTTER OR THE PRICE WHICH IS PAID BY THE AMERICAN CONSUMER. U.S. GRAIN SALES ARE MADE ON A COMMERCIAL BASIS, AT MARKET PRICES AND WITH STRAIGHT COMMERICAL FINANCING. THE BUTTER IS FROM COMMODITY CREDIT CORPORATION STOCKS, ACQUIRED AS A RESULT OF U.S. MILK PRICE SUPPORT POLICY AT A PRICE SIGNIFICANTLY ABOVE WORLD MARKET LEVELS.

3. (LOU) ADDITION TECHNICAL GUIDANCE FURNISHED TO THE USDA'S SPOKESMAN IS AS FOLLOWS.

Q: WHAT PROMPTED THE DECISION TO SELL CCC BUTTER?

A: THE DECISION WAS MADE TO SELL BUTTER FROM COMMODITY CREDIT CORPORATION STOCKS IN ORDER TO REDUCE STORAGE COSTS TO HELP CCC RECOVER COST OF THE DAIRY SUPPORT PROGRAM. INCREASED PRODUCTION AND INADEQUATE DOMESTIC DEMAND HAVE HAVE FORCED HEAVY CCC BUYING TO SUPPORT DAIRY PRICES. FURTHER INCREASES IN CCC STOCKS ARE LIKELY DESPITE THE PRESIDENT'S ACTION WHICH KEPT SUPPORT PRICES FROM RISING IN APRIL.

Q: HOW BIG ARE THE STOCKS?

A: UNCOMMITTED CCC BUTTER STOCKS TOTALLED NEARLY 440 MILLION POUNDS AS OF JULY 31, ABOUT HALF THE LEVEL OF A YEAR AGO. THEY ARE PROJECTED TO REACH 522 MILLION POUNDS BY OCTOBER 1. UNCOMMITTED STOCKS ARE THOSE NOT EARMARKED FOR SCHOOL LUNCHES AND SIMILAR PROGRAMS.

Q: WHAT ARE THE COSTS INVOLVED?

A: THE CCC CURRENTLY BUYS BUTTER AT $1.49 PER POUND.

AT THAT PRICE THE JULY 31 STOCKS REPRESENT A CCC OUTLAY OF MORE THAN $620 MILLION. THE BUTTER IS STORED AT A COST OF 30 CENTS PER HUNDRED WEIGHT PER MONTH, WHICH WOULD BE 1.3 MILLION DOLLARS PER MONTH OR NEARLY 16 MILLION DOLLARS ANNUALLY FOR THE AMOUNT STORED AS OF JULY 31 TO SAY NOTHING OF THE COST OF HAVING SOMEONE'S MONEY TIED UP IN UNUSABLE STOCKS. HOWEVER, A POTENTIALLY MUCH LARGER COST THAN STORAGE IS IN SPOILAGE THE LONGER THE BUTTER IS HELD. BUTTER BEGINS TO GO OFF GRADE AFTER ABOUT ONE YEAR AND THE RESALE PRICE DECLINES ACCORDINGLY. CCC STOCKS INCLUDE BUTTER THAT WENT INTO STORAGE AS EARLY AS 1979.

Q: WHAT WILL CCC GET OUT OF THIS DEAL?

A: AT THE PRICE OF 70 CENT PER POUND THE CCC WILL RECOVER ABOUT 47 OR ITS INVESTMENT IN THE BUTTER SOLD. THE $60 MILLION IN ANNUAL STORAGE CHARGES WOULD BE REDUCED ACCORDINGLY. ALSO, THE INTEREST SAVINGS TO THE GOVERNMENT ON $154 MILLION PER YEAR WOULD BE ABOUT $23 MILLION.

Q: WHY NOT GIVE THE U.S. CONSUMER A BREAK AND SELL THE LOW-PRICED BUTTER HERE RATHER THAN MAKE IT AVAILABLE TO FOREIGN COUNTRIES?

A: UNDER PRESENT POLICY, CCC STOCKS ARE SOLD AT A PRICE AT LEAST 110 OF THE CURRENT PURCHASE PRICE WHICH PRECLUDES CCC BUTTER FROM COMPETING IN THE U.S. WHOLESALE MARKET. IF IT WERE SOLD BELOW CURRENT DOMESTIC WHOLESALE PRICES, CCC WOULD SOON BE BUYING ALL THE BUTTER PRODUCED IN THE COUNTRY AND SUBSIDIZING IT TO CONSUMERS AT TREMENDOUS ADDITIONAL BUDGETARY OUTLAYS.

Q: DOESN'T THIS ACTION VIOLATE GATT RULES?
A: IN TAKING THIS ACTION WE ARE BEING VERY CAREFUL TO RESPECT OUR INTERNATIONAL COMMITMENTS. EXPORT SUBSIDIES ARE PERMISSIBLE UNDER THE GATT RULES. THE ONLY CONSTRAINT IS THAT THEY NOT RESULT IN DISPLACING ANOTHER COUNTRY'S BUSINESS OR TAKING MORE THAN AN EQUITABLE SHARE OF THE WORLD MARKET. THE UNITED STATES AT THIS TIME HOLDS A MAJOR PORTION OF STOCKS OF BUTTER AVAILAULE IN THE WORLD MARKET. AN ORDERLY SALE WILL HELP THE UNSATISFIED WORLD DEMAND. NEW ZEALAND, A LEADING DAIRY EXPORTER WITH 20 PERCENT OF ITS TOTAL EXPORTS IN DAIRY PRODUCTS CAN BE COUNTED ON TO MOVE BUTTER INTO THE WORLD MARKET IN A NON-DISRUPTIVE WAY.

Q: AREN'T WE DOING EXACTLY WHAT WE ARE COMPLAINING THE JAPANESE ARE DOING IN DISPOSING OF THEIR SURPLUS RICE?

A: NO. WE ARE ACTING QUICKLY AND FORCEFULLY TO TRY TO LOWER PRODUCTION AND ELIMINATE SURPLUSES. THE PRESIDENT SIGNED LEGISLATION ELIMINATING THE MID-YEAR SUPPORT PRICE UPWARD ASSESSMENT AND THE ADMINISTRATION IS BACKING LEGISLATION TO REDUCE THE LEVEL AT WHICH MILK PRICES MUST BE SUPPORTED. IN CONTRAST, JAPAN'S RICE SUPPORT PRICES ARE RELATIVELY FAR HIGHER THAN THE MILK SUPPORT PRICES IN THE UNITED STATES. THE JAPANESE REMEDIAL MEASURES ARE TARGETS OVER A PERIOD OF YEARS. THEY HAVE NOT BEEN SUCCESSFUL IN REDUCING THE RICE SURPLUS TO DATE.

Q: WHY SELL ONLY BUTTER, WHAT ABOUT A NON-FAT DRY MILK AND CHEESE?

A: THE CURRENT WORLD MARKET SITUATION AND CONDITION OF CCC STOCKS WARRENT COMMERCIAL SALES OF BUTTER AT THIS TIME. WE ARE MONITORING WORLD MARKET CONDITIONS FOR CHEESE AND DRY MILK.

Q: ISN'T THE PRICE OF THE NEW ZEALAND SALE WAY BELOW THE WORLD PRICE FOR BUTTER?

A: THE DIFFERENCE IS NOT SO GREAT AS IT SEEMS. THE CURRENT WORLD PRICE FOR 82 FAT NEW UNSALTED BUTTER DELIVERED IN EUROPE IS AROUND 1.80 TO 1.50 PER POUND. THE SALE PRICE TO NEW ZEALAND IS 70 CENT A POUND EX-WAREHOUSE. THAT MEANS NEW ZEALAND PAYS FOR TRANSPORTATION AND HANDLING OF THE BUTTER FROM THERE. IN ADDITION, BECAUSE THE BUTTER CONTAINS SALT AND IN SOME CASES IS QUITE OLD IT WILL HAVE TO BE PROCESSED BY NEW ZEALAND INTO BUTTER OIL BEFORE IT CAN BE MARKETED. ALL OF THIS WILL ADD SUBSTANTIALLY TO THE COST OF MOVING IT INTO THE MARKET.

4. (U) THE CONTRACT WITH NEW ZEALAND PROHIBITS U.S. BUTTER SALES WHICH WOULD COMPETE WITH NEW ZEALAND DURING THE LIFE OF THER AGREEMENT (SEPTEMBER 1, 1981 TO JUNE 30, 1982).

5. (LOU) POSTS MAY DRAW ON ABOVE IN RESPONDING TO PRESS AND OTHER QUESTIONS IF RAISED. WE DO NOT RPT NOT RECOMMEND ANY SPECIAL EFFORTS.

HAIG